

BEFORE THE BOARD OF OIL, GAS AND MINING

DEPARTMENT OF NATURAL RESOURCES

STATE OF UTAH

FILED

JUN 02 2016

SECRETARY, BOARD OF
OIL, GAS & MINING

**IN THE MATTER OF THE REQUEST FOR
AGENCY ACTION OF CRESCENT POINT
ENERGY U.S. CORPORATION FOR AN
ORDER ESTABLISHING A 640-ACRE
DRILLING UNIT FOR THE PRODUCTION
OF OIL, GAS, AND ASSOCIATED
HYDROCARBONS FROM THE LOWER
GREEN RIVER AND GREEN RIVER-
WASATCH FORMATIONS IN SECTION 9,
TOWNSHIP 4 SOUTH, RANGE 2 EAST,
U.S.M., UINTAH COUNTY, UTAH**

**[REVISED PROPOSED]
FINDINGS OF FACT,
CONCLUSIONS OF LAW,
AND ORDER**

Docket No. 2016-009

Cause No. 142-14

This Cause came on regularly for hearing before the Utah Board of Oil, Gas, and Mining (the "Board") on Wednesday, April 27, 2016, at the hour of approximately 2:00 p.m. in the Auditorium of the Department of Natural Resources, 1594 West North Temple, Salt Lake City, Utah. The following Board members were present and participated at the hearing: Ruland J Gill, Jr., Chairman, Chris D. Hansen, Carl F. Kendell, and Gordon L. Moon. (Board members Michael R. Brown, Susan S. Davis, and Richard K. Borden were excused.) John R. Baza, Director; John C. Rogers, Associate Director, Oil and Gas; Brad Hill, Oil and Gas Permitting Manager; and Dustin Doucet, Petroleum Engineer, were present for the Utah Division of Oil, Gas and Mining (the "Division") at the hearing. The Division was represented by Steven F. Alder, Assistant Attorney General, and the Board was represented by Michael S. Johnson, Assistant Attorney General.

The petitioner, Crescent Point Energy U.S. Corporation ("CPE"), was represented by Thomas W. Clawson of MacDonald & Miller, Mineral Legal Services, PLLC, and participating

and testifying on behalf of CPE electronically from CPE's Denver offices (pursuant to authorization granted by the Board in an Order entered on April 26, 2016) were Jordan Wells, CPE's Landman; Jason Anderson, CPE's Geologist; and Mark Ballard, CPE's Reservoir Engineer. Mr. Anderson was recognized by the Board as an expert for purposes of geological analysis and interpretation, and Mr. Ballard was recognized by the Board as an expert for purposes of reservoir engineering and economic evaluation.

Prior to the hearing, the United States Department of the Interior ("DOI"), Bureau of Land Management ("BLM") filed a letter dated April 26, 2016, wherein the BLM expressed its support of CPE's Request for Agency Action filed in this Cause (the "Request") based on the DOI, Bureau of Indian Affairs' ("BIA") and Ute Tribe's Energy and Mineral Department's support of the Request. Catie Bucher, BLM Vernal Field Office, appeared and testified at the hearing on behalf of the BLM, and confirmed the BLM's support of CPE's Request. Other than CPE, the Division, and the BLM, no person or party filed a response to CPE's Request and no other person or party appeared at or participated in the April 27, 2016 hearing in opposition to CPE's Request in this matter.

The Board, having fully considered the testimony adduced and the exhibits received into evidence at the April 27, 2016 hearing, being fully advised, and good cause appearing, hereby makes the following findings of fact, conclusions of law, and order in this Cause:

FINDINGS OF FACT

1. Notices of the time, place, and purposes of the Board's regularly scheduled April 27, 2016 hearing were mailed to all interested parties by first-class mail, postage prepaid, and were duly published in The Salt Lake Tribune, Deseret Morning News, Vernal Express, and the Uintah Basin Standard pursuant to the requirements of Utah Administrative Code ("U.A.C.") Rule R641-

106-100. Copies of the Request were mailed to all locatable interested parties pursuant to U.A.C. Rule R641-104-135.

2. CPE is a Delaware corporation with its principal place of business in Denver, Colorado. CPE is qualified to do and is doing business in the State of Utah, and is fully and appropriately bonded as required by all relevant Federal, Tribal, and State of Utah governmental agencies.

3. CPE's Request seeks to establish a 640-acre (or the substantial equivalent) drilling unit for the production of oil, gas, and associated hydrocarbons from the Lower Green River and Green River-Wasatch formations defined as follows (the "Subject Formation"):

That interval below the stratigraphic equivalent of 9,600 feet depth in the "E" Log of the Carter #2 Bluebell Well located in the SW/4NW/4, Section 3, Township 1 South, Range 2 West, U.S.M. (which equivalence is the depth 9,530 feet of the SP curve, Dual Induction Log, run March 15, 1968, in the Chevron #1 Blanchard Well located in the NW/4SE/4 of said [Section 3]), to the base of the Green River-Wasatch formations, which 9,600-foot depth is equivalent to 5,955 feet in CPE's Randlett Gavitte 13-23-3-1E Well, located in the SW/4SW/4 of Section 23, Township 3 South, Range 1 East, U.S.M.

beneath the following lands (the "Subject Lands"):

Township 4 South, Range 2 East, U.S.M.

Section 9: All

(containing 687.31 acres, more or less).

4. At the hearing, CPE clarified that under its Request its intent is to establish a drilling unit for the Subject Formation that encompasses all of subject Section 9. In that regard, CPE's evidence established that Section 9 actually contains 687.31 acres, which the Board finds is the equivalent of 640 acres in the context of establishing a sectional drilling unit, and therefore, the proposed drilling unit actually encompasses 687.31 acres, more or less.

5. CPE owns approximately 98% of the working interests in the oil, gas, and other hydrocarbons within the Subject Lands, which are subject to numerous tribal, allottee, and private (fee) oil and gas leases.

6. There are no well spacing, density, compulsory pooling, or other orders of the Board affecting the Subject Lands. Development of the Subject Lands has proceeded under statewide location and density patterns for the location and siting of wells established by U.A.C. Rule R649-3-2.

7. The following wells are the only vertical wells located on and/or producing from the Subject Formation on the Subject Lands:

(a) Ute Tribal 6-9-4-2E Well, API No. 43-047-51558, located in the SE/4NW/4, Section 9, Township 4 South, Range 2 East, U.S.M.;

(b) Deep Creek 8-9-4-2E Well, API No. 43-047-52438, located in the SE/4NE/4, Section 9, Township 4 South, Range 2 East, U.S.M.;

(c) Deep Creek 9-9-4-2E Well, API No. 43-047-52409, located in the NE/4SE/4, Section 9, Township 4 South, Range 2 East, U.S.M.;

(d) Deep Creek 10-9-4-2E Well, API No. 43-047-52439, located in the NW/4SE/4, Section 9, Township 4 South, Range 2 East, U.S.M. This well was inadvertently omitted from the list of wells included in Paragraph 6 of the Request. This well is of record in the Division's official well files, and the Board hereby takes official notice of the Division's well files regarding this well;

(e) Deep Creek 11-9-4-2E Well, API No. 43-047-52415, located in the NE/4SW/4, Section 9, Township 4 South, Range 2 East, U.S.M.;

(f) Deep Creek 12-9-4-2E Well, API No. 43-047-52440, located in the NW/4SW/4, Section 9, Township 4 South, Range 2 East, U.S.M.;

(g) Deep Creek 13-9-4-2E Well, API No. 43-047-52410, located in the SW/4SW/4, Section 9, Township 4 South, Range 2 East, U.S.M.;

(h) Deep Creek 14-9-4-2E Well, API No. 43-047-52445, located in the SE/4SW/4, Section 9, Township 4 South, Range 2 East, U.S.M.; and

(i) Deep Creek 16-9-4-2E Well, API No. 43-047-52447, located in the SE/4SE/4, Section 9, Township 4 South, Range 2 East, U.S.M.

The Deep Creek 15-9-4-2E Well, API No. 43-047-52411, located in the SW/4SE/4, Section 9, Township 4 South, Range 2 East, U.S.M., was included in the list of vertical wells in Paragraph 6 of the Request. However, it was subsequently discovered, and the Division's official well files confirm, that the permit for this well was rescinded and the well location abandoned. Accordingly, this well is purposely omitted from the list herein of the vertical wells located on the Subject Lands. The Board hereby takes official notice of the Division's well files regarding this well.

In addition, as of the filing of the Request, Applications for Permit to Drill (APD) have been approved for the following vertical wells:

(j) Deep Creek 1-9-4-2E Well, API No. 43-047-54198, located in the NE/4NE/4, Section 9, Township 4 South, Range 2 East, U.S.M.;

(k) Deep Creek 2-9-4-2E Well, API No. 43-047-54197, located in the NW/4NE/4, Section 9, Township 4 South, Range 2 East, U.S.M.;

(l) Ute Tribal 3-9-4-2E Well, API No. 43-047-53787, located in the NE/4NW/4, Section 9, Township 4 South, Range 2 East, U.S.M.;

(m) Ute Tribal 4-9-4-2E Well, API No. 43-047-52200, located in the NW/4NW/4, Section 9, Township 4 South, Range 2 East, U.S.M.; and

(n) Ute Tribal 5-9-4-2E Well, API No. 43-047-53790, located in the SW/4NW/4, Section 9, Township 4 South, Range 2 East, U.S.M.

8. The following well is the only short-lateral horizontal well with a wellbore approximately one-mile long (a “SLHZ well”) located on and producing from the Subject Lands (the “Existing SLHZ Well”):

(a) Deep Creek 15-9-4-2E-GR Well, API No. 43-047-54394, whose surface location is located in the SW/4SE/4 of Section 9, Township 4 South, Range 2 East, U.S.M., and whose bottomhole location is located in the NW/4NE/4 of that section.

9. With the exception of the existing vertical wells and the Existing SLHZ Well (collectively, the “Existing Wells”), there are no other wells drilled on or producing from the Subject Formation beneath the Subject Lands.

10. Based on the exhibits and testimony received into evidence in this Cause, as well as the evidence received and entered in numerous other causes involving the Subject Formation throughout the Uinta Basin, it is well established that the geologic and reservoir characteristics of the Subject Formation beneath the Subject Lands constitutes a “common source of supply” as defined in Utah Code Ann. § 40-6-2(19).

11. There are at least six distinct productive intervals within the Subject Formation beneath the Subject Lands, including the Wasatch formation, and the following members of the Lower Green River formation, the Garden Gulch, Douglas Creek, Three Point/Black Shale, Upper/Lower Castle Peak, and Uteland Butte Members. Although there are some geologic barriers between some of these intervals, the Subject Formation constitutes one common source of supply.

12. Based upon the information and data obtained through CPE's drilling of the Existing Wells, and the testimony and exhibits presented at and received into evidence at the April 27, 2016 hearing in this Cause:

(a) The drilling, completion, and operation of future vertical wells and future SLHZ wells in the requested 687.31-acre drilling unit as provided herein will result in production and productivity increases and greater cost effectiveness over the combination of the vertical wells and the Existing SLHZ Well alone, and will allow access to additional resources in the Subject Formation underlying the proposed drilling unit that would not otherwise be recovered;

(b) No more than one vertical well drilled to the Subject Formation beneath the Subject Lands is required to efficiently and economically drain a single 40-acre (or substantial equivalent) governmental quarter-quarter section, supporting establishing the proposed 40-acre (or substantial equivalent) drilling tracts (or well-location areas) for such vertical wells.

(c) No more than 16 vertical wells and no more than 12 SLHZ wells drilled to the Subject Formation beneath the Subject Lands are required to efficiently and economically drain the proposed 687.31-acre drilling unit, supporting establishing the proposed 687.31-acre drilling unit for such wells.

(d) With respect to SLHZ wells, the average effective hydraulic fracture half lengths and average orientation confirm that: (i) producing interval setbacks of 330 feet laterally from an existing vertical well or future vertical well; (ii) producing interval setbacks of 330 feet laterally from the north and south boundaries of the requested drilling unit; (iii) producing interval setbacks of 560 feet laterally from the east and west boundaries of the requested drilling unit; (iv) producing interval setbacks of 330 feet laterally from the producing interval of the Existing SLHZ Well or any future SLHZ wells within the requested drilling unit; (v) no inter-well producing

interval setback distance laterally within the requested drilling unit between SLHZ wells drilled to separate zones within the Subject Formation (collectively, “Stacked SLHZ wells”); and (vi) producing interval setbacks of 100 feet vertically from the producing interval of a Stacked SLHZ well from the producing interval of another Stacked SLHZ well within the requested drilling unit, will collectively result in efficient but limited communication between the Existing Wells, future vertical wells, and future SLHZ wells, and will allow greater flexibility in locating future vertical wells and future SLHZ wells upon the Subject Lands to maximize resource recovery, while still protecting correlative rights;

(e) It is difficult, if not impossible, to establish uniform producing interval setbacks between existing vertical wells, future vertical wells, the Existing SLHZ Well, and future SLHZ wells, but all such types of wells may be required to maximize resource recovery from the Subject Formation. Additionally, requiring the separation of individual production intervals within the entire pool of the Subject Formation could require separate metering, and could create additional administrative burdens to either prevent, or effect, the commingling of production from the Subject Formation via vertical and SLHZ wells;

(f) In order to maximize the recovery of resources from the Subject Formation:

(i) one vertical well in each 40-acre (or substantial equivalent) governmental quarter-quarter section tract on the Subject Lands (inclusive of the existing vertical wells), and up to 16 vertical wells located within the governmental section comprising the Subject Lands (inclusive of the existing vertical Wells); and (ii) up to 12 SLHZ wells in the requested drilling unit (inclusive of the Existing SLHZ Well) are necessary to allow flexibility in the drilling of wells and to allow the maximum recovery of resources from all productive zones and intervals found within the Subject Formation underlying the Subject Lands.

13. In CPE's experience, because portions of the Subject Lands are subject to oil and gas leases issued through the BIA for Indian mineral owners, a communitization agreement will be required (whether by regulation, guideline, or BIA practice) to commit the Indian-owned minerals to a cooperative development plan conforming to the proposed drilling unit established herein. One hundred percent of the working interests and privately-owned lease burdens in the proposed drilling unit have been committed to a communitization agreement currently pending for approval before the BIA and BLM. CPE expects that such communitization agreement will be approved by the BIA in the near future.

14. The Subject Lands consist of two tracts, one consisting of the NW $\frac{1}{4}$ of Section 9 containing only Indian-owned mineral interests, and the other consisting of the remainder of the Subject Lands containing only privately-owned mineral interests that are owned on an undivided basis across the entire tract. All of the undivided private mineral interests in subject Section 9 are subject to current oil and gas leases, and all such leases are of an undivided interest in all of the minerals in the privately-owned tract and provide that the lessee thereunder may commit such a lease to a cooperative development plan, such as a communitization agreement, or to otherwise voluntarily pool the mineral interests covered by the lease with other leases.

15. This Cause presents a unique circumstance where 100% of the working interests in the proposed 687.31-acre drilling unit, including the working interests in the Indian-owned minerals, have committed their interests (and leases) to a cooperative development plan, and 100% of the privately-owned lease burdens also have been committed to the same cooperative development plan by the working interest owners under the terms of the fee leases, thus assuring the protection of all of the owners' correlative rights in the Subject Formation underlying the Subject Lands.

16. The vote of the Board members present and participating in the April 27, 2016 hearing concerning this Cause was split (3-1), three Board members voted in favor of granting CPE's Request as submitted, and Board Member Moon voted against granting CPE's Request.

CONCLUSIONS OF LAW

1. Due and regular notice of the time, place, and purposes of the Board's regularly scheduled April 27, 2016 hearing was given to all interested parties in the form and manner and within the time required by law and the rules and regulations of the Board. Due and regular notice of the filing of the Request was given to all interested parties in the form and manner required by law and the rules and regulations of the Board.

2. Pursuant to Sections 40-6-5 and 40-6-6 of the Utah Code, the Board has jurisdiction over all matters covered by the Request and all interested parties therein, and has the power and authority to make and issue an order thereunder and as herein set forth.

3. The Subject Formation underlying the Subject Lands constitutes a "common source of supply," as that term is defined in Utah Code Ann. § 40-6-2(19).

4. Good cause appears to grant the Request regarding establishing a 687.31-acre drilling unit for the Subject Formation beneath the Subject Lands, as provided herein.

5. Up to 16 vertical wells and up to 12 SLHZ wells may be required to efficiently and economically drain the proposed drilling unit and to prevent waste.

6. Creation of the requested 687.31-acre drilling unit for the production of oil, gas, and associated hydrocarbons from the Subject Formation, and the imposition of the vertical and horizontal setbacks as requested, is fair, reasonable, and justified under the circumstances.

7. Correlative rights will be protected by virtue of the setbacks as provided herein.

8. The relief granted hereby will result in the consistent and orderly development and greatest recovery of oil, gas, and associated hydrocarbons from the Subject Formation beneath the Subject Lands, will prevent waste, and will adequately protect the correlative rights of all affected owners.

9. CPE has sustained its burden of proof, demonstrated good cause, and satisfied all legal requirements for granting the Request.

10. Pursuant to U.A.C. Rule R641-108-204, the Board may take official notice of the Division's official well files as provided in Finding of Fact No. 7 herein.

ORDER

Based upon the Request, testimony and evidence submitted and entered at the April 27, 2016 hearing, and the findings of fact and conclusions of law as stated above, it is hereby ordered that:

1. CPE's Request in this Cause is granted.
2. The Subject Formation is designated a "common source of supply," as that term is defined in Utah Code Ann. § 40-6-2(19).
3. A 687.31-acre drilling unit for the production of oil, gas, and associated hydrocarbons from the Subject Formation beneath the Subject Lands is established (the "Drilling Unit").
4. Within the Drilling Unit established hereunder, sixteen 40-acre (or substantial equivalent) drilling tracts (or well-location areas) corresponding to the governmental quarter-quarter sections within said drilling unit are hereby designated for purposes of locating vertical wells. Such drilling tracts are intended to establish an orderly drilling pattern for vertical wells

within the Drilling Unit and are not intended to be separate drilling or spacing units as contemplated by Utah Code Ann. § 40-6-6.

5. Up to 16 vertical wells, inclusive of the existing vertical wells, are hereby authorized in the Drilling Unit so established. A single vertical well may be drilled, completed, and operated, and may be produced, from the Subject Formation in each 40-acre (or substantial equivalent) drilling tract (or well-location area) in the Drilling Unit.

6. Vertical wells drilled to the Subject Formation shall be located pursuant to U.A.C. Rule R649-3-2, *i.e.*, in the center of a 40-acre (or substantial equivalent) drilling tract, with a 400-foot window of tolerance, located no closer than: (i) 460 feet from the boundaries of any 40-acre drilling tract and (ii) 920 feet from any other vertical well producing from the Subject Formation, absent an exception location approved pursuant to U.A.C. Rule R649-3-3.

7. Up to 12 short-lateral horizontal wells with wellbores approximately one mile in length, inclusive of the Existing SLHZ Well, are hereby authorized in the Drilling Unit.

8. No producing interval of any future SLHZ well may be located closer than 330 feet laterally from any vertical well, absent an exception location approved pursuant to U.A.C. Rule R649-3-3.

9. No producing interval of any future SLHZ well may be located: (i) closer than 330 feet laterally from the north and south boundaries of the Drilling Unit; (ii) closer than 560 feet laterally from the east and west boundaries of the Drilling Unit; or (iii) closer than 330 feet laterally from the producing interval of the Existing SLHZ Well or any future SLHZ well within the Drilling Unit, absent an exception location approved pursuant to U.A.C. Rule R649-3-3.

10. With respect to SLHZ wells drilled to separate zones within the Subject Formation—Stacked SLHZ wells, there shall be no required inter-well setback distance laterally

between one another within the Drilling Unit, but no producing interval of a Stacked SLHZ well may be located closer than 100 feet vertically from the producing interval of another Stacked SLHZ well, absent an exception location approved pursuant to U.A.C. Rule R649-3-3.

11. The surface location of any future SLHZ well may be located anywhere within the Drilling Unit, but may also be located outside of the Drilling Unit, presuming the acquisition of proper surface and sub-surface authorizations and the casing/cementing of any future SLHZ well to the 330 foot setback set forth in Paragraph 9 above, both of which shall be evidenced by a self-certification of the same executed by the operator of the Drilling Unit and filed with the Division, and provided that the other setbacks set forth in Paragraph 9 above are otherwise maintained.

12. Pursuant to U.A.C. Rules R641 and Utah Code Ann. §§ 630-4-204 to -208, the Board has considered and decided this Cause as a formal adjudication.

13. This Findings of Fact, Conclusions of Law, and Order (“Order”) is based exclusively on evidence of record in the adjudicative proceedings or on facts officially noted, and constitutes the signed written order stating the Board’s decision and the reasons for the decision, all as required by the Utah Administrative Procedures Act, Utah Code Ann. § 630-4-208 and U.A.C. Rule R641-109.

13. Notice re Right to Seek Judicial Review by the Utah Supreme Court or to Request Board Reconsideration: The Board hereby notifies all parties in interest that they have the right to seek judicial review of this final Board Order in this formal adjudication by filing a timely appeal with the Utah Supreme Court within 30 days after the date that this Order is issued. Utah Code Ann. §§ 630-4-401(3)(a) and -403. As an alternative to seeking immediate judicial review, and not as a prerequisite to seeking judicial review, the Board also hereby notifies all parties that they

may elect to request that the Board reconsider this Order, which constitutes a final agency action of the Board. Utah Code Ann. § 630-4-302, entitled “Agency Review-Reconsideration,” provides:

(1)(a) Within 20 days after the date that an order is issued for which review by the agency or by a superior agency under Section 630-4-301 is unavailable, and if the order would otherwise constitute final agency action, any party may file a written request for reconsideration with the agency, stating the specific grounds upon which relief is requested.

(b) Unless otherwise provided by statute, the filing of the request is not a prerequisite for seeking judicial review of the order.

(2) The request for reconsideration shall be filed with the agency and one copy shall be sent by mail to each party by the person making the request.

(3)(a) The agency head, or a person designated for that purpose, shall issue a written order granting the request or denying the request.

(b) If the agency head or the person designated for that purpose does not issue an order within 20 days after the filing of the request, the request for reconsideration shall be considered to be denied.

Id. The Board also hereby notifies all parties that Utah Administrative Code Rule R641-110-100, which is part of a group of Board rules entitled, “Rehearing and Modification of Existing Orders,” states:

Any person affected by a final order or decision of the Board may file a petition for rehearing. Unless otherwise provided, a petition for rehearing must be filed no later than the 10th day of the month following the date of signing of the final order or decision for which the rehearing is sought. A copy of such petition will be served on each other party to the proceeding no later than the 15th day of that month.

Id. See Utah Admin. Code R641-110-200 for the required contents of a petition for rehearing.

If there is any conflict between the deadline in Utah Code Ann. § 63G-4-302 and the deadline in Utah Admin. Code R641-110-100 for moving to rehear this Cause, the Board hereby

rules that the later of the two deadlines shall be available to any party moving to rehear this matter. If the Board later denies a timely petition for rehearing, the party may still seek judicial review of the Order by perfecting a timely appeal with the Utah Supreme Court within 30 days thereafter.

15. The Board retains continuing jurisdiction over all the parties and over the subject matter of this Cause, except to the extent said jurisdiction may be divested by the filing of a timely appeal to seek judicial review of this Order by the Utah Supreme Court.

16. For all purposes, the Chairman's signature on a faxed or electronic copy of this Order shall be deemed the equivalent of a signed original.

DATED this _____ of June, 2016.

STATE OF UTAH
BOARD OF OIL, GAS AND MINING

By: _____
Ruland J Gill, Jr., Chairman